BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2019-239- E-ORDER NO. 2019-___

December____, 2019

IN RE: Dominion Energy South Carolina, Incorporated's Request for Approval of an Expanded Portfolio of Demand Side Management Programs, and a Modified Demand Side Management Rate Rider	)	**PROPOSED ORDER ON EXPANSION OF DEMAND SIDE MANAGEMENT PLAN AND MODIFICATION TO RATE RIDER**

Introduction

This matter comes before the Public Service Commission of South Carolina ("Commission") on the Request filed by Dominion Energy South Carolina, Incorporated ("DESC" or the "Company") seeking approval to expand and modify its Demand Side Management ("DSM") programs[1] for an extended five-year term. The Request is also seeking approval to allow DESC to modify, expand, amend, terminate or add any measure or program to its suite of DSM programs without seeking prior approval from the Commission, as well as to reaffirm with modifications the DSM Rate Rider mechanism and allow for recovery of costs and Net Lost Revenues associated with its DSM programs, along with approval of shared saving incentives for the Company's investment in such programs.

[1] DESC refers to the programs as DSM programs, and ORS does the same, however, the programs are better described as energy efficiency ("EE") programs.

OVERVIEW OF THE MATTER

Docket No. 2019-57-E

On January 31, 2019, pursuant to S.C. Code Ann. §58-37-20 (2015) and in accordance with the Commission's Order No. 2010-472, as modified by Order No. 2013-826, South Carolina Electric & Gas Company ("SCE&G") filed its Annual Update on DSM programs and Petition to Update Rate Rider ("Petition") in Docket No. 2019-57-E.[2] The Company sought authorization from the Commission to update its "Rider to Retail Rates – Demand Side Management Component" ("DSM Rider") to provide recovery of the Company's costs and net lost revenues associated with its DSM programs and for a Commission-approved shared savings incentive for investing in such programs to be effective for the twelve (12)-month period beginning with the first billing cycle in May 2019 and ending with the last billing cycle for April 2020 ("Recovery Period").

The Company published a Notice of Filing in newspapers and filed its proof of publication as instructed by the Commission's Clerk's Office. A Petition to Intervene was filed by Walmart, Incorporated ("Walmart"). The South Carolina Conservation League and Southern Alliance for Clean Energy ("SACE/CCL") did not file a Petition to Intervene; however, it did file a letter with the Commission of March 12, 2019, that suggested a comprehensive review be conducted on the Company's DSM portfolio and rate rider mechanism because over the past six years the Company's portfolio has shrunk and its energy savings, after dwindling and rebounding, appear to have stalled.[3]

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[2] SCE&G is the predecessor to DESC.

[3] See SACE/CCL's letter in Docket No. 2019-57-E, dated March 12, 2019.

On April 1, 2019, the South Carolina Office of Regulatory Staff ("ORS") filed with the Commission its report on its review of DESC's Petition that concluded the updated DSM Rider was developed in accordance with Commission guidance as set forth in Commission Order Nos. 2010-472, and 2013-826.[4] On April 2, 2019, Walmart filed a letter, in lieu of comments, with the Commission stating Walmart reviewed the Company's Petition and had no issues with DESC's filing in Docket No. 2019-57-E.

Commission Order No. 2019-292,[5] filed on April 25, 2019, granted approval to the Company's request to update its DSM Rider with an effective date rendered on or after the first billing cycle of May 1, 2019.[6] Order No. 2019-292 authorized the Company to continue its DSM Rider, allowing the Company to recover the costs and net lost revenues associated with its DSM programs, along with a shared savings incentive ("SSI") equal to 6% of the net benefits derived from the Company's DSM programs, as well as instructed DESC to continue following its practice as established in Commission Order No. 2010-826, and modified in Commission Order No. 2013-826. As detailed in the Commission Orders referenced, the Company must file with the Commission its update to the DSM Rider each January through the life of the DSM programs. The filing is to include the Company's net lost revenues, program costs, shared saving incentive, net program benefits, and other items deemed appropriate, and the filing must encompass the twelve-month period beginning December 1 and ending November 30. For this annual filing, the prior

[4] ORS's Review of South Carolina Electric & Gas Company's 2019 Annual Update on Demand Side Management Programs and Petition to Update Rate Rider.

[5] Commission Order No. 2019-292 entitled DESC to update its DSM Rider to provide recovery of $13,765,392 for amortized Program Costs, $15,076,488 for Net Lost Revenues, and an amortized shared saving incentive of $1,463,898, all totaling $30,305,738. The DSM Rate Rider was approved with a rendered date of first billing cycle in May 2019, allowing for a residential customer using 1000 kWh per month to receive a monthly bill reduction of approximately $0.37. The Company was given 10 days from the date of the Order to file with the Commission the amended DSM Rider with rates approved by the Order.

[6] See Order No. 2019-292 in Docket No. 2019-57-E.

review period was December 1, 2016 to November 30, 2017, current review period of December 1, 2017 to November 30, 2018, and a forecasted period of December 1, 2018 to November 30, 2019. Commission Order No. 2019-292 approved the following DSM Rider figures: 0.184 cents/kWh for residential customers, 0.274 cents/kWh for small general service customers, 0.176 cents/kWh for medium general service customers, and 0.093 cents/kWh for large general service customers, with an effective date of on and after the first billing cycle in May 2019. The Commission also noted the Company's DSM Rider for residential customers decreased from 0.221 to 0.184 cents/kWh, which resulted in a decrease to an average residential customer using 1,000 kWh per month of approximately $0.37. The Company was also encouraged to continue its efforts to collaborate with ORS, Walmart, SACE/CCL on ways to improve its DSM programs.

Pursuant to the Order, the Company filed its approved DSM Rider with the Commission on May 6, 2019.[7]

Basis for DESC's Request in 2019-239-E

S.C. Code Ann. § 58-37-20 provides the Commission may adopt procedures that encourage electrical utilities to invest in cost-effective energy efficient technologies and energy conservation programs. In Order No. 2010-472, this Commission approved the Company's suite of nine Residential and two Commercial and Industrial ("C&I") DSM programs and authorized DESC to establish a Rate Rider to recover costs. Order No. 2013-826 approved the Company's revised suite of DSM programs. In annual filings from 2014 through 2019, this Commission approved updated factors for the Rate Rider and various modifications to the DSM programs, and held that no party could file for changes or modifications in the programs until November 26, 2019. In anticipation

[7] See Company's letter with attachments dated May 6, 2019 in Docket No. 2019-57-E.

of the re-evaluation of the DSM/EE portfolio, DESC enlisted independent third-party consultants and conducted the ICF Resources, LLC ("ICF") Potential Study ("Study") and DSM program analysis. The results of the Study, along with DESC's proposed suite of new and modified programs were presented to the Advisory Group for review and input.[8] This Request stems from the results of the Study.

PROCEDURAL HISTORY

On June 28, 2019, the Company filed with the Commission a Request for Approval of an Expanded Demand Side Management Plan and a Modified Demand Side Management Rate Rider ("Request") along with a Proposed Notice of Filing ("Notice").[9] In its Notice the Company proposed the following requests to be approved by the Commission: (1) Its proposed suite of expanded and modified DSM programs for an extended five-year term; (2) Continued authorization to modify, expand, amend, terminate or add any measure or program to its suite of DSM programs going forward without the requirement to seek prior approval from the Commission before doing so; (3) Reaffirm with modifications the DSM Rate Rider mechanism; (4) Approve changes to program cost recovery and the shared saving incentive ("SSI") as previously proposed in DESC's Application; and (5) Reaffirm the Commission's approvals as set forth in prior orders except to the extent of DESC's proposed modifications and amendments in

[8] Order No. 2010-472 required DESC establish the Advisory Group, which includes representatives from the Large Energy Users Group, South Carolina Small Business Chamber of Commerce, SACE/CCL, ORS, and South Carolina Office of Economic Opportunity.
[9] See Company's Request and Notice dated June 28, 2019

this Docket.[10] DESC also requested this matter be heard on a schedule which allowed for an effective date of December 1, 2019.[11,12]

By letter dated July 12, 2019, the Commission's Clerk's Office instructed DESC to publish, by August 20, 2019, a Notice[13] in newspapers of general circulation in the areas affected by the outcome of this proceeding. On August 5, 2019,[14] the Company filed with the Commission its proof of publication.

Timely Petitions to Intervene were filed by Walmart, the South Carolina State Conference of the NAACP ("NAACP"), and SACE/CCL, with the Commission providing Directive Orders[15] granting all parties' Petitions to Intervene. ORS is a party to this matter pursuant to S.C. Code Ann. § 58-4-10(B).

On October 2, 2019, DESC filed the Direct Testimony of John Raftery and Therese Griffin, along with the Direct Testimony and Exhibits of Allen Rooks and David Pickles.[16]

On October 23, 2019, SACE/CCL and NAACP filed the Direct Testimony of Elizabeth Chant; Walmart filed the Direct Testimony and Exhibit of Lisa Perry; and ORS filed the Direct Testimony and Exhibits of George Evans.

On October 30, 2019, DESC filed the Rebuttal Testimony of John Raftery, Therese Griffin, Allen Rooks, and David Pickles.

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[10] DESC requested in its Application filed on January 31, 2019 that the initial DSM Rider become effective on the first billing cycle of May 2019, and end on the last billing cycle of April 2020, approved in Docket No. 2019-57-E by Order No. 2019-292, be changed to have an effective date of December 1, 2019.
[11] *See* Notice dated June 28, 2019.
[12] After the hearing in this Docket, DESC abandoned the December 1, 2019 effective date so that Proposed Orders could be submitted on December 4, 2019.
[13] *See* the Commission's Clerk's Office Notice of Filing to the Company dated July 12, 2019.
[14] *See* the Company's August 5, 2019, Proof of Publication letter with attached copies of the newspaper publications.
[15] The Commission's Directive Order Nos. 2019-611 and 2019-640 granted all parties' filed Petitions to Intervene in Docket No. 2019-239-E.
[16] Mr. Rooks provided corrected Exhibits AWR-1 and AWR-2 at the hearing to reflect corrections made to the Rate Rider Tariff.

On November 4, 2019, SACE/CCL and NAACP filed the Surrebuttal Testimony of Elizabeth Chant and Eddy Moore; and ORS filed the Surrebuttal Testimony and Exhibit of George Evans.

The hearing commenced on November 13, 2019, before this Commission with Belton Zeigler, Esquire; Chad Burgess, Esquire; and Matthew Gissendanner, Esquire, representing DESC. William Cleveland, Esquire and Stinson Ferguson, Esquire represented SACE/CCL and NAACP; Stephanie Eaton, Esquire representing Walmart and Jeff Nelson, Esquire and Jenny Pittman, Esquire appearing on behalf of ORS.

DESC first presented witnesses Raftery, Griffin, and Pickles as a panel. Mr. Raftery, Director of Rates and Regulatory Affairs of DESC, gave an overview of the Company's DSM programs and provided background and an overview of DESC's Request. Mr. Raftery testified to the results of the Study DESC filed with its Application seeking approval of ten DSM programs, eight of which are expansions or modifications of current programs and two of which are new programs. These programs include: Residential Neighborhood Energy Efficiency ("NEEP"), Residential Multifamily, Residential Appliance Recycling, Residential Heating & Cooling, Residential Home Energy Check-Up, Residential Home Energy Reports, Residential EnergyWise Savings Store (Online Store), Commercial Small Business Direct Install, Commercial and Industrial EnergyWise for your Business (including Agricultural), and Municipal LED Lighting. In Rebuttal Testimony, Mr. Raftery testified that DESC agreed with Mr. Evans' recommendation that going forward the avoided costs for DESC's DSM programs should be based on the methodology ultimately approved by the Commission in Docket No. 2019-184-E and the avoided cost values should not be modified until the five-year program period has expired. Mr. Raftery further testified, once the methodology is approved, DESC will use the resulting avoided costs to update any energy and demand savings for the portfolio, compute the SSI, and re-evaluate the cost effectiveness of the full range of measures in each of the proposed programs. Mr. Raftery testified that DESC also agreed with the suggestion made by Mr. Evans that DESC re-evaluate its demand response ("DR") programs once Advanced Metering Infrastructure ("AMI") becomes available in DESC's service territory and explained that DESC intends to do that. Mr. Raftery disagreed with Ms. Chant's suggestion that DESC has not complied with the Commission's requirement that it develop DR programs to address winter peak. Mr. Raftery testified that DESC conducted the Study in accordance with Order No. 2018-322(A), and the exhaustive Study was the basis for the filing in this proceeding.

DESC witness Griffin, Manager of Energy Efficiency and Demand Management, testified about DESC's current suite of DSM programs and how they have evolved since 2010, explaining the results the programs have achieved and why modifications and expansions are necessary. Ms. Griffin testified about the achievements of DESC's current suite of programs. Ms. Griffin testified that DESC worked closely with the Advisory Group, trade allies, and other stakeholders in preparing the suite of programs proposed in this docket. Ms. Griffin testified about each of the programs contained in its Request as well as how DESC would promote participation. In Rebuttal Testimony, Ms. Griffin responded to several assertions made by Ms. Chant. Ms. Griffin refuted the assertion that DESC did not have any programs geared toward the needs of moderate-income residents and testified the NEEP targets neighborhoods of both low- and moderate-income residential customers. Ms. Griffin disagreed with Ms. Chant's recommendation of additional regulatory oversight and testified that Ms. Chant did not point to any specific problem with the current process and DESC felt there was no need for any changes. Ms. Griffin also disagreed with Ms. Chant's recommendation that DESC shorten the opt-in period for C&I customers, testifying a shorter period would allow customers to opt out after receiving the benefits, but before paying for those benefits.

DESC witness Pickles, Senior Vice President of ICF, provided an overview of the Study - ICF's analysis of potential DSM programs for DESC and testified the portfolio proposed represented a reasonable and balanced suite of programs. In Rebuttal Testimony, Mr. Pickles responded to certain recommendations made by Mr. Evans and Ms. Chant. Mr. Pickles disagreed with Mr. Evans' recommendation that recovery of Lost Revenues should be reduced by Found Revenues for three reasons. First, Mr. Pickles testified Mr. Evans' recommendation would be in violation of South Carolina law as it would be inconsistent with S.C. Code Ann. § 58-37-20. Second, Mr. Pickles testified the recommendation would be unjust because while DESC may receive Found Revenues, those revenues historically have been used to partially compensate the Company for Found Costs. Lastly, Mr. Pickles testified Mr. Evans' recommendation would have wide-ranging and negative impacts on important public policy goals such as decarbonization, efficient use of the DESC system, and mitigation of future rate increases. Mr. Pickles also disagreed with Mr. Evans' recommendation that DESC's SSI should be increased from 6% to 9.9%. Mr. Pickles testified DESC's SSI should be increased to 11.5%, and DESC's program success should not be compared to other utilities. Mr. Pickles addressed and disputed various portions of Ms. Chant's testimony pertaining to her recommendation that DESC establish an energy savings goal of 1% of energy sales; Ms. Chant's reliance on historic achievement in other states in order to set future goals for DESC; the rejection of DESC's SSI and the implementation of a sliding scale shared savings mechanism; the sufficiency of DESC's Study, the measures and programs included in DESC's proposal; and DESC's analysis of DR programs targeted at the winter peak.

Next, the Company presented witness Rooks, the Electric Pricing and Rates Administration Manager for DESC. Mr. Rooks testified this Rate Rider would maintain the currently approved cost recovery mechanisms with four proposed changes. Mr. Rooks testified the purpose of the Rate Rider is to allow DESC to recover its costs spent on DSM programs along with lost revenues and an incentive equal to a portion of the customer savings created by the Company's DSM programs, as provided for in S.C. Code Ann. § 58-37-20. Mr. Rooks testified the changes DESC is seeking to make regarding the Rate Rider are: shortening the amortization period for recovery of DSM balances from five years to three; changing the carrying cost applied to unrecovered DSM balances to make investment in DSM programs at least as financially attractive as investments in generating assets; increasing the shared savings percentage from 6% to 11.5% to be more in line with other utilities; and shortening the period during which eligible non-residential customers can opt out of the program and from the Rate Rider after receiving DSM program benefits. Mr. Rooks testified the Company is not seeking any changes in rates in this proceeding, and that rates would be updated in the Company's next annual DSM proceeding to be filed in January 2020. Mr. Rooks testified in Rebuttal in response to Mr. Evans, clarifying the Company's position regarding the carrying cost rate, testifying the rate would update annually to the then current rate to coincide with the Rate Rider update in May of each year, and would not be fixed for the five-year term. Mr. Rooks also testified Mr. Evans' recommendation to set the amortization period to the life of the program, not to exceed three years was not the approach DESC typically utilizes. Mr. Rooks testified should Mr. Evans' recommendation be adopted, DESC would request that: 1) a uniform amortization period be implemented for all Program Costs, in this case three years; 2) the Company be allowed to group Program Costs for each program year by Residential and C&I costs, and not be required to track vintages by specific program; 3) existing program cost balances be amortized over a three-year term; and 4) that any over/under recovery of specific vintage costs after three years, be applied as a true-up in the following vintage year.

After DESC rested its case, SACE/CCL and NAACP presented witness Chant, Managing Consultant at Optimal Energy. Ms. Chant testified while DESC is delivering cost-effective programs and taking steps toward a cleaner energy future for South Carolina, DESC currently shows low attainment relative to potential and needs to be doing more to increase its efforts and investment in cost-effective EE. Ms. Chant recommended the following changes to DESC's proposal: increase EE goals by requiring DESC to obtain a minimum of 1% annual savings as a percentage of total annual sales by the end of year five; increase service beyond what has historically been proposed to underserved market sectors, such as low and moderate income, multifamily, and small businesses; set boundaries on the Company's ability to change programs over the five-year period; maintain DESC's existing 6% allocation of shared savings as sufficient incentive for DESC's EE programs, as proposed, given expected increases in the Net Present Value Benefit ("NPV"); structure any increase in shared savings as at-risk, earned on a sliding scale by DESC only if and when savings reach 0.8% of total annual sales; set a lower barrier to re-entry in the Rate Rider for C&I accounts that have opted out; and require action be taken to increase EE and DR programming to address winter peak, as required by the Commission in Order No. 2018-322(A).

In Surrebuttal Testimony, Ms. Chant responded to points made by DESC witnesses Raftery, Griffin, and Pickles. Ms. Chant testified a 1% savings target is reasonable, as DESC's Study shows many programs in 2017 achieved over 1% savings. Ms. Chant identified several limitations to the Study and the data that was used, and how those limitations could be cured. Ms. Chant also testified measures should be taken to expand programs specifically targeted to low-income ratepayers and separate programs specifically targeted to moderate-income ratepayers, refuting Mr. Pickles' and Ms. Griffin's assertions that DESC already has sufficient programs in place to accomplish that goal. Ms. Chant reiterated her positions that an 11.5% SSI is too high for the performance proposed and DESC failed to develop and implement DR programs to reduce winter peak, stating DESC has failed to take EE measures into consideration.

Only filing Surrebuttal Testimony, SACE/CCL and NAACP witness Moore, Energy and Climate Program Director for CCL, testified about his role in the Advisory Group and his experience with potential studies, as well as his impression of DESC's Study. Mr. Moore testified the Study was not the product of extensive collaboration and he did not feel that the level of savings represented in the Study were sufficient. Mr. Moore also testified that while DESC should be rewarded for saving energy, the rewards should be modest for modest achievement and higher for a higher level of achievement – per the sliding scale presented by Ms. Chant. Mr. Moore testified that should the Commission accept the Study as adequate evidence to support DESC's proposed program portfolio, it is both premature and factually inaccurate to make any finding now that would limit efficiency and other DSM options that should be considered when DESC files its Integrated Resource Plans ("IRPs") in the years covered by this Study.

Next, Walmart presented witness Perry, Senior Manager, Energy Services of Walmart. Ms. Perry testified Walmart is a large commercial customer of DESC, with 34 stores and related facilities in the DESC service territory. Ms. Perry testified Walmart has established aggressive and significant company-wide renewable energy goals and is a leader in energy efficiency. Ms. Perry testified all but one smaller Walmart location have opted out or are in the process of opting out of DESC's current DSM Programs and that Walmart has no objection to DESC's request to shorten the opt-out period from five to three years.

The final witness presented was ORS witness Evans, President of Evans Power Consulting. Mr. Evans testified the proposed modified and expanded portfolio of programs is a reasonable mix of programs designed to achieve benefits and energy savings to residential, commercial and industrial customers. Mr. Evans testified DESC's assertion that the Company's current suite of programs has been successful is generally accurate, but the latest Evaluation, Measurement, and Verification ("EM&V") Report shows the Company achieved less than forecasted energy and demand savings compared to the amount spent on Program Costs. Mr. Evans also testified the Company's avoided costs for DSM should be calculated based on the methodology approved pursuant to Act 62 in Docket No. 2019-184-E, and recommended the avoided costs not be modified until the five-year Program period has expired. In Surrebuttal Testimony, Mr. Evans testified he accepted Mr. Rooks' request that Program Costs be amortized over three years, subject to the factors addressed above. Mr. Evans also testified he agreed with DESC's request to update the carrying cost rate applied to the unrecovered balance of Program Costs to be updated annually to the Company's embedded cost of long-term debt. Mr. Evans disagreed with Mr. Rooks and Mr. Pickles that an SSI of 11.5% was appropriate, instead recommending this Commission increase DESC's current SSI from 6% to 9.9%. Mr. Evans disputed Mr. Pickles' net income calculation as not being based on a reasonable capacity cost. Mr. Evans also disagreed with Mr. Pickles' assertion that comparing DESC's suite of programs and its level of achievement to other utilities is inappropriate – Mr. Evans testified his recommendation to increase the SSI to 9.9% is reasonable given the programs DESC offers and the expected energy savings.

STATUTORY STANDARDS AND REQUIRED FINDINGS

DESC filed its Request in this Docket pursuant to S.C. Code Ann. § 58-37-20, which provides, in part:

> the South Carolina Public Service Commission may adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities;

The statute further provides the Commission is required to:

> establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

REVIEW OF THE EVIDENCE AND FINDINGS OF FACT

Cost Recovery and Rate Rider

Through the Rate Rider, DESC recovers the Program Costs, the Net Lost Revenues, and SSI. The Program Costs are amortized over five years with carrying costs, and the SSI is amortized over five years without carrying costs. Net Lost Revenues are not amortized and are limited to a rolling three-year period. DESC requested the existing cost recovery mechanism remain in effect, but modified with a shorter amortization period, a changed carrying cost rate, and increased SSI. DESC requested the Program Costs be amortized over three years instead of five; the carrying cost rate applied to the unrecovered balance of Program Costs be updated to the Company's embedded cost of long-term debt; and authorization to increase the SSI from the current level of 6% to 11.5%.

I. Amortization Period

DESC requested to change its amortization period from five years to three years. Mr. Rooks testified the shorter amortization period allowed for a timelier recovery of program expenses and helped to counteract the inherent lag in rate recovery of program costs under the Rate Rider – with a five-year period there is a 65 to 77 month lapse, as compared to a 41 to 53 month lapse with a three-year amortization period. Mr. Rooks testified rates would more closely track program expenses each year and the price signals to customers and stakeholders would be clearer. Mr. Rooks testified by reducing the amortization period, DESC would reduce the amount of DSM costs that are accumulated as a regulatory asset and carried on DESC's books. Mr. Rooks testified that increased spending will increase the balance of deferred costs for future recovery, and the current spending projection, while maintaining a five-year amortization period, is projected to result in a balance of approximately $146.6 million in deferred costs to be recovered in 2024. With a three-year amortization period, Mr. Rooks testified the 2024 balance of deferred costs is projected to be approximately $102.4 million, which is approximately a 30% reduction.

Mr. Evans testified the reduced amortization period will provide a more accurate cost signal to customers while also reducing carrying costs. However, Mr. Evans testified that instead of a flat, three-year amortization period for all Program Costs, DESC should better align the amortization period with the program life, up to three years. For example, Mr. Evans testified the Home Energy Reports Program has a life of one year; therefore, costs should not be amortized.

In Rebuttal Testimony, Mr. Rooks testified that DESC does not typically utilize the vintaging approach as recommended by Mr. Evans but made several recommendations should the vintaging approach be ordered by this Commission. Mr. Rooks testified DESC would request a uniform amortization period of three years be implemented for all Program Costs and that DESC be allowed to group Program Costs for each program year by Residential and C&I instead of tracking vintages by specific program. He further testified that existing Program Cost balances should be amortized over a three-year term, and any over/under recovery of specific vintage costs after three years be applied as a true-up in the following vintage year. Mr. Evans testified his approach would create different cost recovery vintages, which is the most precise and fair method to calculate and update the Rate Rider. However, Mr. Evans accepted Mr. Rooks' recommendation that using the uniform amortization period with the ability to track program year cost vintages by Residential or C&I would reduce the administrative complexity of the DSM Rate Rider and allow for more efficient monitoring and auditing by ORS.

Commission Finding

Based on the testimony of Mr. Rooks and Mr. Evans, this Commission finds the uniform amortization approach proposed by DESC is reasonable, will not require DESC to drastically alter its current procedures, and will provide ORS the ability to efficiently monitor and audit the Rate Rider. Additionally, no other party objected to this methodology.

II. Carrying Costs

Mr. Rooks testified changing the carrying cost rate to DESC's current weighted cost of debt is consistent with the statutory mandate of S.C. Code Ann. § 58-37-20 and more closely matches carrying costs to DESC's actual cost of capital for expenses of this type. Mr. Evans agreed with DESC's position, asserting the weighted cost of debt is a typical cost factor applied to utility investments and allows the Company to recover costs and obtain a reasonable rate of return on investments in DSM/EE programs.

Commission Finding

Based on the testimony provided by Mr. Rooks and Mr. Evans, this Commission finds that adjusting DESC's carrying cost rate to match DESC's weighted cost of debt is appropriate and is consistent with the provisions of S.C. Code Ann. § 58-37-20. Additionally, no other party objected to this adjustment. Therefore, DESC's carrying cost rate will be updated as the Company annually updates its cost of debt.

III. Shared Savings Incentive

In its request, DESC sought to increase its SSI from 6% to 11.5%. Mr. Rooks testified DESC has consistently been allowed to recover an incentive on its DSM investment that represents a small portion of the savings customers receive. This incentive is calculated based on the customers' projected savings over the life of each measure using the Utility Cost Test ("UCT") and is trued up to reflect benefits as verified through the annual third-party EM&V Report of program results. DESC currently recovers an incentive equal to 6% of customers' net savings, per Commission Orders No. 2010-472 and No. 2013-826. Mr. Rooks testified DESC is seeking an increase in that percentage to 11.5%, asserting the increase is in keeping with the expansion of the program as well as the SSI earned by other utilities. Mr. Rooks testified that this increase in SSI will increase the projected incentive from $1,462,160 to $2,802,474 for all retail electric classes in Program Year ("PY") 10 and the typical residential customer will see a $0.02 increase per month.

Mr. Evans testified DESC failed to provide a sufficient basis or justification for the requested increase in SSI. Mr. Evans testified ORS's recommendation of an increase from 6% to 9.9% is appropriate, as it reflects the fact that the Company's proposed energy savings do not rise to the levels achieved by other South Carolina public utilities, and DESC's proposed suite of programs is not comparable to other South Carolina public utilities. Mr. Evans also testified certain programs that cannot be tied directly to kWh savings, or those that are not cost effective, should be excluded from the SSI calculations. Mr. Evans also testified any low-income programs, education programs, and research and development activities not directly associated with a program be excluded from the SSI calculations.

Ms. Chant testified DESC's requested increase in SSI was too high given the comparatively low level of proposed annual savings. Ms. Chant testified she could support a higher SSI if it were conditional on achieving more ambitious goals and recommended this Commission only accept the increase to 11.5% if it is structured as at-risk based on savings results that are at or beyond 0.8% of total annual sales. Ms. Chant testified this sliding scale method is valuable in performance incentives as it provides motivation for higher performance levels as opposed to just meeting a minimum threshold.

In Rebuttal Testimony, Mr. Pickles testified S.C. Code Ann. § 58-37-20 does not include a comparison to the programs or savings achievements of other public utilities, and it would be inappropriate to compare DESC's programs and achievements to other utilities.[17] Mr. Pickles testified that the only standard for determining the appropriateness of the SSI is that it ensure the net income of a utility is at least as high as the net income would have been if the energy conservation measures had not been implemented. Mr. Pickles testified the net income DESC would otherwise earn on the 115.5 megawatts ("MW") of capacity saved by the proposed portfolio is $5,597,280, which justifies the 11.5% SSI. Mr. Pickles also testified he disagreed with Ms. Chant's position that DESC's requested SSI of 11.5% is too high, therefore resulting in excessive

[17] Under cross examination by ORS counsel about Mr. Rooks and Mr. Raftery comparing DESC to other utilities, Mr. Pickles conceded that comparisons can be appropriate in certain situations.

compensation. Mr. Pickles testified Ms. Chant's sliding scale mechanism for calculating SSI is contrary to S.C. Code Ann. § 58-37-20. Mr. Pickles' testified the sliding scale would reduce DESC's shareholder incentive to zero and eliminate DESC's incentive for offering EE programs. Mr. Pickles also testified DESC's approach already drives DESC to cost-effectively increase savings and to decrease costs.

In response, Mr. Evans testified ORS was unable to verify Mr. Pickles' net income calculations, therefore Mr. Evans testified he could not accept the calculations were correct. Mr. Evans testified he disagreed with Mr. Pickles' assertion that without the Company's DSM programs, DESC would install additional capacity in a generation mix equivalent to the Company's existing generation fleet. Mr. Evans testified DESC's current IRP indicates the Company will not require additional generation resources until the year 2029 and it will likely add modern combined cycle or combustion turbine units to meet this capacity need at much lower costs.[18] Mr. Evans further testified that while he could not verify the exact numbers in Mr. Pickles' calculation, the calculation itself was not based on a reasonable capacity cost. Mr. Evans testified the fundamental flaw in Mr. Pickles' computation is DESC having received 6% of the net benefits as SSI since 2011, while achieving only 11.23 MW in peak demand savings. If Mr. Pickles' method and assumptions for calculating the SSI were approved, DESC would only receive 1.1% of the net savings as SSI, rather than the current 6%, which confirms Mr. Pickles' calculations are incorrect. Mr. Evans also testified ORS does not recommend DESC match the energy savings achieved by other South Carolina public utilities, but since DESC has proposed an SSI comparable to other

[18] *See* Docket No. 2019-9-E, SCE&G Integrated Resource Plan.

utilities it is only reasonable that DESC be required to achieve similar savings in order to earn that SSI.

In response to Mr. Pickles, Ms. Chant testified the 11.5% SSI is too high for the performance proposed and further reiterated her recommendation that the upper end of the performance incentive be scaled to support goals that require DESC to achieve higher levels of savings than proposed.

Commission Finding

This Commission finds it is reasonable, in the public interest, and fully consistent with S.C. Code Ann. § 58-37-20 that DESC's SSI be increased from 6% to 9.9% to coincide with DESC's expanded scope of programs and the projected energy savings customers will receive. Earning an SSI of 9.9% will ensure the net income of DESC is at least as high as the net income would have been if the energy conservation measures had not been implemented. While this Commission is aware that other South Carolina utilities earn higher savings incentives, an SSI of 11.5% is not appropriate here where DESC has failed to reach the level of energy savings from its DSM programs as other utilities have.

IV. Net Lost Revenues

ORS witness Evans recommended DESC reduce Lost Revenues by Found Revenues, as ordered by this Commission in previous dockets.[19] Mr. Evans testified Found Revenues include any increases in revenues resulting from any new activities by the Company that cause a net increase in any customer's demand or energy consumption. Mr. Evans testified these Found

[19] *See* Docket No. 2015-163-E and Docket No. 2013-298-E.

Revenues would reduce the recovery of Lost Revenues and reduce the Rate Rider, as seen in Commission Order No. 2015-596.

Mr. Pickles testified in opposition to ORS's recommendation regarding Found Revenues, asserting reducing Lost Revenues by Found Revenues would be inconsistent with and prohibited by S.C. Code Ann. § 58-37-20; the recommendation is unjust as historically Found Revenues have been used to compensate the Company for Found Costs; and the recommendation would negatively impact public policy goals such as decarbonization, efficient use of the DESC system, and mitigation of future rate increases. Mr. Pickles testified full recovery of Lost Revenues is a necessary component of S.C. Code Ann. § 58-37-20 and a variety of activities that provide significant benefits to DESC's customers would be significantly less attractive to the Company under Mr. Evans' proposal, which would ultimately have a "significant chilling effect" on DESC's incentive to invest in certain programs.

Mr. Evans testified this Commission should reject Mr. Pickles' arguments that reducing Lost Revenues by Found Revenues is unlawful and against public policy due to this Commission previously adopting a clear, limited definition of Found Revenues and an efficient mechanism designed to track and net Found Revenues with Lost Revenues in Docket Nos. 2015-163-E and 2013-298-E. Mr. Evans testified this Commission has properly excluded energy and demand increases that result from economic development activities and public policy requests to grow the economy, create jobs or enhance sustainability from the categorization of Found Revenues, thus Mr. Pickles' categorization of Found Revenues is overly broad and not applicable in the context of EE and DSM. Mr. Evans included a Net Found Revenues Mechanism ("Mechanism") as an exhibit to his Surrebuttal Testimony, which is the same mechanism used by both Duke Energy Progress, LLC and Duke Energy Carolinas, LLC (collectively "Duke") and has provided Duke's customers with $114,880 in Net Found Revenues since its approval. Mr. Evans also disputed Mr. Pickles' assertion that Found Revenues are unjust to the Company and would chill the Company's investment activities, increase off-peak sales, and economic development. Mr. Evans testified he estimated Found Revenues totaling approximately $23,000 per year employing the Mechanism – an amount that would not have any chilling effect on Company investments. Additionally, Mr. Evans testified the Mechanism excludes energy and demand increases that result from economic development activities and public policy requests to grow the economy, create jobs, or enhance sustainability.

On cross examination, Mr. Pickles testified that Found Costs could be recovered through the utility's general rate cases.

Commission Finding

Even though DESC historically applied Found Revenues to offset Found Costs, as Mr. Pickles testified, "[t]he declaration of an existing practice may not be the substitute for an evaluation of the evidence. A previously adopted policy may not furnish the sole basis for the Commission's action." *See* Heater of Seabrook, Inc. v. PSC, 332 S.C. 20, 26, 503 S.E.2d 739, 742 (1998) (quoting Hamm v. PSC, 309 S.C. 282, 289, 422 S.E.2d 110, 114 (1992). This Commission has previously found that reducing Lost Revenues by Found Revenues is consistent with S.C. Code Ann. § 58-37-20, therefore this Commission rejects the argument this treatment of Lost Revenues is unlawful and against public policy.[20] As previously held, this Commission finds the Mechanism benefits both the Company and all classes of its customers and is consistent with S.C. Code Ann. § 58-37-20. We do not believe that the Mechanism will have a negative impact on Company

[20] *See* Order No. 2015-596 and Order No. 2013-889.

investments or on any economic development or public policy activities. Additionally, Found Costs can be recovered through the utility's general rate cases, so it is reasonable to reduce Lost Revenues by Found Revenues instead of applying Found Revenues to Found Costs in DSM proceedings.

V. Commercial & Industrial Customer Opt-Outs

Mr. Rooks testified an eligible non-residential customer may currently opt-out of DSM programs, and the Rate Rider, by filing a written request with the Company stating the customer already implemented or will be implementing alternative DSM and EE measures. There is currently a five-year period for these opt-outs. Mr. Rooks testified DESC proposes to modify the opt-out provision to change the period during which a customer must remain in the program after accepting benefits. This will require customers who accept DSM benefits to remain subject to the Rate Rider during the time that costs associated with those benefits are being collected. Mr. Rooks testified the "no opt-out" period should be aligned with the amortization period and the current opt-out provisions would remain in effect for those existing customers who have already opted out.

Mr. Evans testified this Commission should approve DESC's requested change to the opt-out period as it is reasonable to limit the opt-out period to the maximum period over which the DSM costs incurred on behalf of the customer would be recovered, which would be three years. Ms. Perry testified that Walmart had no objection to DESC's request.

Ms. Chant opposed DESC's request, testifying the request could impede attempts to draw C&I customers back to the programs, and suggested a shorter time period would be more advantageous. In response, Ms. Griffin testified a shorter time period would allow customers to opt in to the program long enough to receive benefits, which could be as high as $100,000, and immediately opt out of any payment responsibility for the benefits received. Ms. Griffin disputed Ms. Chant's assertion that a shorter time period would attract customers back into the program, testifying that in her experience, those customers that chose to opt-out have made informed business decisions and therefore shortening the time period would not likely have significant long-term impacts on customer participation levels.

Commission Finding

This Commission finds reducing the opt-out period to three years, to align with the amortization period, is appropriate as customers would be required to remain subject to the Rate Rider during the time that costs associated with the benefits received are being collected. No evidence was presented to show a shorter opt-out period would have any impact on bringing customers back who previously opted-out.

VI. Avoided Cost Calculations

Mr. Pickles testified DESC proposed the reevaluating of the avoided cost for DSM be done concurrently with the planning of the programs for the next five-year cycle, as opposed to midstream within each cycle. Mr. Pickles testified this will provide stability and will enhance DESC's ability to offer long-run programs that customers can become familiar with and rely upon, while also allowing DESC to more reliably predict the cost-effectiveness and financial performance of the portfolio.

Mr. Evans testified DESC's avoided cost methodology should be consistent across the various business units that require an avoided cost calculation to determine rates and charges. Mr. Evans testified while it is reasonable for the DSM avoided cost calculation to differ from the avoided cost calculation in Docket No. 2019-184-E, the difference is significant and should warrant further review to determine if the methodology, inputs, and assumptions for both calculations are accurate and reasonable. Mr. Evans testified it would be appropriate to reevaluate the avoided cost methodology and calculations for the life of the programs, which is five years.

Mr. Raftery testified DESC agreed with Mr. Evans recommendations that the avoided cost for DSM programs should be calculated based on the methodology approved in Docket No. 2019-184-E and the values should not be modified until the five-year program period has expired. Mr. Raftery testified the approved avoided costs would be used to update any energy and demand savings for the portfolio as well as to compute the SSI. Mr. Raftery also testified DESC will use the avoided costs to reevaluate the cost effectiveness of the full range of measures under each of the proposed programs, which in addition to input from the Advisory Group will allow DESC to determine if any new measures are appropriate to implement and if any existing measures should be removed.

Commission Finding

This Commission finds it is reasonable and in the public interest that DESC keep consistent with its avoided cost values across all of the Company's business units, and consistent with the avoided cost values as ordered in Docket No. 2019-184-E.[21] DESC must use the same methodology approved in Docket No. 2019-184-E for calculating the avoided cost values and those values will be used to update any energy and demand savings, to compute the SSI, and to reevaluate the cost effectiveness of the programs.

A. ORDER

IT IS THEREFORE ORDERED that based on the above stated findings and conclusions,

[21] *See* Commission Directive filed on November 15, 2019 in Docket 2019-184-E. A formal Order is to follow.

1) DESC will amortize program costs for three years for all programs; DESC may group program costs for each program year by Residential and C&I costs, and not be required to track vintages by specific program; existing program cost balances will be amortized over a three-year term; and any over/under recovery of specific vintage costs after three years, be applied as a true-up in the following year's vintage;
2) DESC will change the carrying cost rate to reflect the current embedded cost of long-term debt, to be updated annually;
3) DESC is granted an increase in SSI from 6.0% to 9.9% of the net benefits provided by certain programs; DESC's SSI calculation shall not include programs targeted at low income residential customers, education programs, and research and development activities not directly associated with a DSM or EE program;
4) DESC will reduce Lost Revenues by Found Revenues, as outlined in the Net Found Revenues Mechanism attached hereto as Order Exhibit 1;
5) DESC's Opt-Out period will be three-years to be in congruence with the amortization period;
6) The avoided cost calculations used to determine the value of load reductions will align with the methodology as approved by this Commission under Act 62 in Docket No. 2019-184-E;
7) DESC's proposed modified and expanded portfolio of programs, subject to the specific findings of this Order, is a reasonable mix of programs designed to achieve benefits and energy savings to residential, commercial, and industrial customers, and is therefore approved;
8) The five-year program period is approved;

9) The effective date of the change in the carrying cost rate is to align with the implementation of the new and expanded programs;

10) DESC is to re-evaluate new direct load-control programs when AMI becomes available in the DESC service territory;

11) DESC is to provide this Commission with an updated estimate of the 2020 rate for a residential customer using 1,000 kWh based on this Order; and

12) DESC is to provide this Commission with a clean and red-lined version of the proposed Rate Rider reflecting the determinations in this Order.

BY ORDER OF THE COMMISSION:

Comer H. Randall, Chairman

ATTEST:

Justin T. Williams, Vice Chairman

(SEAL)